

Yellow Medicine County Board of Commissioners Policy Manual
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TITLE
County Investment Policy

CODE
401

REFERENCE
M.S. 118A Public Depository and Investment Law

PERSONNEL RESPONSIBLE
Yellow Medicine County Finance Manager

APPROVED BY: County Board

EFFECTIVE DATE
11-22-2011

POLICY

401.100 PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of Yellow Medicine County. This investment policy is designed to safeguard funds on behalf of the County, assure the availability of operating and capital funds when needed, ensure compliance with applicable Minnesota statutes, and provide a competitive investment return in light of statutory restrictions.

401.200 SCOPE

In accordance with accounting standards, financial reporting guidelines, and Minnesota statutes, this investment policy applies to all cash and investments held or controlled by the County Finance Manager on behalf of the County. This policy does not apply to funds related to the issuance of debt where there are other indentures in effect for such funds. In addition, any future revenues and proceeds, which have statutory investment requirements conflicting with this Investment Policy, are not subject to the provisions of this policy.

Effective December 31, 2007, except for cash in certain restricted funds and a portion of ditch funds, Yellow Medicine County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the general fund except for those investments that are restricted in accordance with generally accepted accounting principles and a portion of the ditch funds.

401.300 INVESTMENT OBJECTIVES

The primary objectives of the County, in priority order, of investment activities shall be safety, liquidity and yield.

A. Safety of Principal

The foremost objective of this investment policy is to ensure the safety of the principal of public funds. Investment transactions shall be undertaken in a manner to ensure the preservation of capital in the overall portfolio. This objective will mitigate credit and interest rate risk.

1. Custodial Credit Risk

The County will minimize deposit Custodial Credit Risk, which is the risk of loss or failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

The County will eliminate investment Custodial Credit Risk by permitting brokers that obtain investments for the County to hold them only to the extent there is SIPC and excess SIPC coverage available and that they qualify under Minn. Stat. 118.06 to hold investment. Securities purchased that exceed available SIPC coverage or are purchased by a broker that does not qualify under Minn. Stat. 118.06 to hold investment shall be transferred to the County's custodian.

2. Concentration Credit Risk

The County will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units.

3. Interest Rate Risk

The County will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by : 1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market prior to maturity; and 2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

4. Foreign Currency Risk

The County is not authorized to invest in investments which have this type of risk.

B. Maintenance of Liquidity

County funds shall be managed such that they are available to meet reasonably anticipated cash flow requirements.

C. Yield/Return on Investment

The County investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the applicable investment risk constraints and liquidity needs. It is understood that return on investments is of secondary importance when compared to the safety and liquidity objectives described above.

401.400 MANAGEMENT OF INVESTMENTS

The County Finance Manager is responsible for overseeing the day-to-day management of County investments. In the event the County Finance Manager is unable to carry out investment responsibilities, the duties shall be assumed by the Deputy Treasurer. The County Finance Manager shall be responsible for the transferring of appropriated funds to affect investment transactions, for the investment of operating funds, and bond proceeds, consistent with this policy and actions of the County Board. Should the County Investment Committee elect to select an outside investment advisor, such advisor or firm must be registered under the Investment Advisor's Act of 1940.

401.500 DELEGATION OF AUTHORITY

In accordance with Minnesota Statute §118A.02, subdivision 1, Minnesota Statute § 385.071, the County Investment Committee has the authority to designate brokers and make investments in accordance with MN Stat. §118A.01 to §188A.06. Furthermore in accordance with Minnesota Statute § 385.071, the County Board authorizes the use of an electronic wire transfer of county funds where it is deemed appropriate, expeditious and in the best interest of Yellow Medicine County.

401.600 AUTHORIZED DEPOSITORIES, INVESTMENT INSTITUTIONS AND DEALERS

Depositories shall be selected by the County Investment Committee in such a manner as prescribed by Minnesota Statute §118A.01 thru §118A.08. In selecting depositories, the credit-worthiness of institutions shall be considered. At least biannually the County Finance Manager shall be provided a collateral pledge agreement along with documentation--a bank resolution or minutes-- approving the collateral pledge agreement.

Each depository used by the County must be one of the following:

- A. a savings association
- B. a commercial bank
- C. a trust company
- D. a credit union

- E. an industrial loan and thrift company

County funds will be invested in instruments which meet at least one of the following criteria:

- A. In governmental bonds, notes, bills, mortgages, and other securities, which were direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- B. In a general obligation of a state or local government with taxing powers which was rated "A" or better by a national bond rating service.
- C. In a revenue obligation of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service.
- D. In a general obligation of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service.
- E. In commercial paper issued by a United States corporation or its Canadian subsidiary and that: was rated in the highest quality category by at least two nationally recognized rating agencies, and matures in 270 days or less.
- F. In time deposits fully insured by the Federal Deposit Insurance Corporation.
- G. In bankers' acceptances issued by United States banks.
- H. In its own temporary obligations issued under Minn. Stat. 429.091, subd. 7 (special assessments), 469.178, subd. 5 (tax increment bonds), or 475.61, subd. 6.
- I. Other investment instruments as allowed by Minnesota statutes (i.e. repurchase agreements, reverse repurchase agrees, mutual funds, and units of a short-term investment fund).

All brokers, dealers and other financial institutions approved by the County Finance Manager shall be provided with current copies of this investment policy and shall provide in return to the County, certification of having read, understood and agreement to comply with this investment policy.

401.700 PRUDENCE

Investments shall be made with judgment and care -- under circumstances then prevailing -- which persons of prudence, discretion, and intelligence exercise, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

The standard of prudence to be used by the County Investment Committee shall be the "prudent person" standard as well as compliance with the County's Ethics Policy. These standards shall be applied in the context of managing an overall portfolio. The County Investment Committee, acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

401.800 ETHICS AND CONFLICT OF INTEREST

The County Board, County Investment Committee and anybody else involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make

impartial investment decisions. Also, any member of the County Investment Committee shall disclose to the Board any material financial interests in financial institutions that conduct business with the Board or County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment program.

401.900 AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments and Depositories are restricted to those complying with the applicable sections of Minnesota Statutes 118A. Listed below are some specific examples:

- ◆ U.S. Government Securities;
- ◆ U.S. Government Agencies;
- ◆ Federal Instrumentalities (U.S. Government-Sponsored Enterprises);
- ◆ Certificates of Deposit;
- ◆ G.O. Securities of any state or local government rated "A" or better
- ◆ Repurchase Agreements;
- ◆ Commercial Paper;
- ◆ Bankers' Acceptances;
- ◆ Registered Investment Companies (Money market mutual funds);
- ◆ MAGIC Fund;
- ◆ Certain Mutual Funds;
- ◆ Any investment allowed by Minnesota Statute §118A.01 to §118a.08.

401.1000 REPORTING

The County Finance Manager shall submit monthly investment reports to the County Board. The reports shall include, at a minimum, the following information for each individual investment:

- ◆ Description of investment instrument
- ◆ Interest rate or yield to maturity
- ◆ Maturity date
- ◆ Purchase price or remaining principle(Book Value)
- ◆ Estimated Annual Interest

401.1100 DIVERSIFICATION

It is the policy of Yellow Medicine County to diversify its investment portfolios. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

In establishing specific diversification's strategies, the following general policies and constraints shall apply:

- ◆ Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- ◆ Positions in securities having potential default risk (i.e. commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- ◆ Risks of market price volatility shall be controlled through maturity diversification.

401.1200 SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, the assets of Yellow Medicine County shall be secured through third party custody and safekeeping procedures. The County Finance Manager shall be bonded to protect the public against possible embezzlement and malfeasance. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third party custodial safekeeping. Safekeeping procedures, legality of investments, and the receipting of interest shall be reviewed annually by an independent auditor.

Investments, contracts, and agreements may be held in safekeeping with:

- ◆ any Federal Reserve bank;
- ◆ any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- ◆ a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- ◆ a securities broker-dealer, or an affiliate of it, that meets the following requirements:
 - (i) it is registered as a broker-dealer under chapter 80A or is exempt from the registration requirements;
 - (ii) it is regulated by the Securities and Exchange Commission; and
 - (iii) it maintains insurance through the Securities Investor Protection Corporation or excess insurance coverage in an amount equal to or greater than the value of the securities held.

The government entity's ownership of all securities must be evidenced by written acknowledgments identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number, or other distinguishing marks.

401.1300 POLICY CONSIDERATIONS

Any investment held at the time of the implementation of this policy that meets the requirements of Minnesota Statutes but does not meet the guidelines of this policy, shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

The County Finance Committee shall be the County Investment Committee.

This policy shall be reviewed from time to time. The County Board must adopt any changes to this policy.

This policy replaces Policy 401 – County Investment Policy adopted 3-22-2011.

CERTIFICATION OF AUTHORIZED INSTITUTION

_____ acknowledges he/she has read, understands and agrees to comply with the Investment Policy of Yellow Medicine County.

By: _____

Title: _____

Date: _____